

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08  
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01  
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 IGA-02 L-03 /096 W  
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R 260557Z JUL 77  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC 9619  
INFO AMEMBASSY OTTAWA  
AMEMBASSY BRUSSELS  
AMEMBASSY PARIS

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BRUSSELS FOR USMISSION EEC

PARIS FOR USMISSION OECD

PASS EXIMBANK AND TREASURY

E.O. 11652: N/A  
TAGS: EGEN  
SUBJECT: EXPORT CREDITS: DISCUSSION WITH JAPANESE OFFICIALS ON  
US PROPOSAL FOR AN INTERNATIONAL ARRANGEMENT

REF: TOKYO 10651

1. SUMMARY: US DELEGATION HELD THREE DAYS OF INTENSIVE  
DISCUSSION WITH OFFICIALS FROM MINISTRY OF INTERNATIONAL  
TRADE AND INDUSTRY (MITI), MINISTRY OF FINANCE (MOF),  
EXIMBANK JAPAN, AND MINISTRY OF FOREIGN AFFAIRS (MOFA).  
EXCHANGE OF VIEWS WAS CONSTRUCTIVE EVEN THOUGH JAPANESE  
STATED THEY HAD NOT YET DEVELOPED FIRM POSITIONS. WHILE  
EXPRESSING SUPPORT FOR OBJECTIVE OF MINIMIZING COUNTER-  
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PRODUCTIVE COMPETITION IN OFFICIAL EXPORT CREDITS, JAPANESE  
APPEAR TO PREFER FURTHER DEFINITION AND CLARIFICATION  
OF EXISTING CONSENSUS RATHER THAN SUBSTANTIVE STRENGTHENING  
THROUGH A NEW INTERNATIONAL ARRANGEMENT. US DEL EMPHASIZED  
NEED FOR BOTH CLARIFICATION AND STRENGTHENING TO FULFILL  
LONDON SUMMIT MANDATE AND OFFSET PROTECTIONIST PRESSURES.  
CONTINUED EFFORTS BY SENIOR USG OFFICIALS WILL BE NEEDED

TO ASSURE GOJ PROGRESS IN THIS AREA. END SUMMARY.

2. US DELEGATION (RYSS, TREASURY; FURTADO, EXIMBANK; AND MCCAMEY, FINANCIAL ATTACHE, EMBASSY, TOKYO) MET WITH REPRESENTATIVES FROM MITI, MOF, EXIMBANK JAPAN, AND MOFA. JAPANESE SIDE INCLUDED SENIOR DIVISION DIRECTORS FROM VARIOUS MINISTRIES AS WELL AS LARGE NUMBER OF WORKING LEVEL OFFICIALS. JAPANESE NOTED THAT WITH EXCEPTION OF MAEDA OF MITI OTHER OFFICIALS HAVE ONLY RECENTLY ASSUMED RESPONSIBILITY IN EXPORT CREDIT AREA SO LENGTHY DISCUSSIONS SERVED TO IMPROVE THEIR UNDERSTANDING AND CLARIFY ISSUES. IN THIS CONTEXT JAPANESE OFFICIALS INDICATED THEY WERE PREPARED FOR CONSTRUCTIVE EXCHANGE OF VIEWS ON US DRAFT PROPOSAL BUT NOT TO TAKE DEFINITIVE POSITION OR NEGOTIATE ON PROPOSAL.

3. US DEL EMPHASIZED NEED FOR FORWARD PROGRESS IN EXPORT CREDIT AREA TO COUNTERACT VARIETY OF EMERGING PRESSURES AND AVOID EROSION OF LIMITED GAINS ACHIEVED THROUGH EXISTING CONSENSUS. DELEGATION POINTED OUT THAT US EXPORTING COMMUNITY VOCIFEROUSLY COMPLAINING ABOUT FOREIGN OFFICIAL EXPORT CREDIT COMPETITION. MOREOVER, US ADMINISTRATION WOULD BE FACED THIS FALL WITH CONGRESSIONAL HEARINGS ON MULTI-YEAR EXTENTION OF EXIMBANK LEGISLATION AS WELL AS DECISION ON BUDGETARY AUTHORITY FOR EXIMBANK FOR NEXT FISCAL YEAR.  
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4. JAPANESE INDICATED APPRECIATION OF NEED FOR IMPROVED CONSENSUS BUT SUGGESTED WOULD BE BEST ACCOMPLISHED, AT THIS TIME, THROUGH GREATER SPECIFICITY IN DEFINING TERMS AND UNDERTAKINGS IN THE EXISTING CONSENSUS; IN ESSENCE, THEY ADVOCATED CLOSING THE LOOPHOLES RATHER THAN STRENGTHENING COMMITMENTS.

5. JAPANESE FELT THAT EUROPEANS WERE EXPLOITING LOOPHOLES IN CONSENSUS, E.G., BY PROVIDING OR PERMITTING INDIRECT FINANCING FOR 15 PERCENT CASH PAYMENT REQUIRED UNDER CONSENSUS. THEY SUGGESTED EXPORT CONTRACT SHOULD STIPULATE 15 PERCENT CASH PAYMENT.

6. ON INTEREST RATES, JAPANESE INDICATED STRONG ANTIPATHY TO INCREASE IN PRESENT MINIMUM RATES. THEY ALSO SUGGESTED BLENDED(PRIVATE AND OFFICIALLY SUPPORTED) RATE SHOULD CONTINUE TO BE USED IN DETERMINING MINIMUM RATE RATHER THAN RATE AT WHICH OFFICIAL SUPPORT PROVIDED. THEY FELT THAT JAPANESE (AND U.S.) EXPORTERS SHOULD NOT BE DISADVANTAGED BY FACT THAT COMMERCIAL INTEREST RATES IN FED REP AND SWITZERLAND LOWER THAN RATE AVAILABLE IN

JAPAN (AND (U.S.)). THEY ALSO POINTED TO LDC CONCERNS ABOUT CONSENSUS IN CIEC AS REASON NOT TO RAISE INTEREST RATES ON EXPORT CREDITS TO LDC'S. US REPLIED THAT OFFICIAL EXPORT CREDITS CONSTITUTE A COMMERCIAL PROGRAM AND SHOULD NOT BE CONFUSED WITH AID WHICH IS PROVIDED ON A CONCESSIONAL BASIS.

7. DISCUSSION OF PRESENT CATEGORIZATION OF COUNTRIES INTO INDUSTRIAL, INTERMEDIATE AND DEVELOPING (HAVING DIFFERENT PERMISSIBLE TERMS) INDICATED NEED FOR ANNEX TO ARRANGEMENT WHICH SETS OUT COUNTRIES IN EACH GROUP. QUESTION ALSO RAISED WHETHER PRESENT CATEGORIZATION SHOULD BE RE-EXAMINED AND PROCEDURE DEFINED FOR SHIFTING A COUNTRY INTO ANOTHER CATEGORY.  
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8. RE U.S. PROPOSAL FOR LONGER REPAYMENT TERMS FOR AIRCRAFT, CONVENTIONAL AND NUCLEAR POWER AND STEEL PLANTS, JAPANESE SUGGESTED POSSIBLE NEED FOR LONGER TERMS IN OTHER SECTORS, E.G., LARGE TURNKEY PROJECTS. US DEL POINTED OUT ENUMERATED SECTORS WERE EXCLUDED FROM PRESENT CONSENSUS AND US PURPOSE WAS TO BRING THEM INTO COVERAGE WITHOUT RETREATING FROM STRICTER TERMS NOW APPLIED TO ALL OTHER SECTORS.

9. JAPANESE ALSO EXPRESSED CONCERN ABOUT PROPOSED PHRASE, "JUSTIFIED BY SPECIAL ECONOMIC AND FINANCIAL CHARACTERISTICS." THEY NOTED THE SUPPLIER COULD SUGGEST THERE WERE NATIONAL SECURITY REASONS JUSTIFYING A 12-YEAR REPAYMENT TERM.

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10. WHEN US DEL NOTED POSSIBLE NEED TO DEFINE START OF REPAYMENT PERIOD, JAPANESE POINTED OUT BERNE UNION DEFINITION MAY BE PROBLEM FOR SOME COUNTRIES. THEY ALSO SUGGESTED NEED TO CLARIFY WHETHER INTEREST PAYMENTS SHOULD BE PAID THROUGHOUT REPAYMENT PERIOD OR DEFERRED UNTIL LATER YEARS.

11. THE JAPANESE STATED THAT THEY HAD EXPLAINED THEIR POSITION ON LOCAL COST FINANCING IN THE OECD/ECG. MOREOVER, LOCAL COST FINANCING WAS BECOMING AN INCREASINGLY IMPORTANT MATTER IN TURNKEY PROJECTS. US DEL COMMENTED THAT LOCAL COST FINANCING DID NOT SUPPORT EXPORT OF PARTICULAR PRODUCT BUT PROVIDED FUNDS FOR PROJECT, AND WAS IMPROPER ROLE FOR EXPORT CREDIT AGENCY.

12. JAPANESE DID NOT EXPECT THAT FRANCE WOULD AGREE TO DROP ITS EXPORT INFLATION INSURANCE PROGRAM. MOREOVER, JAPANESE EXCHANGE RISK INSURANCE PROGRAM, WHILE USED IN A LIMITED FASHION, CANNOT BE GIVEN UP WITHOUT LEGISLATION. US DEL NOTED THAT USG VERY CONCERNED ABOUT THESE TYPES OF SCHEMES. AFTER GATT WORKING PART REPORTS TO COUNCIL, USG WILL CONSIDER WHETHER TO INVOKE ARTICLE XXIII.

13. JAPANESE INDICATED INTEREST IN CONTINUING TO PROVIDE MIXED CREDITS BUT INCONCLUSIVE DISCUSSION REFLECTED FACT THEY ARE STILL TRYING TO RATIONALIZE POSITION.

14. IN GENERAL DISCUSSION ON INFORMATION EXCHANGE, JAPANESE EXIMBANK REPRESENTATIVE SUGGESTED THAT DISCLOSURE OF REQUESTED INFORMATION COULD BREACH CONFIDENTIALITY OF INFORMATION OBTAINED FROM EXPORTER. US DEL POINTED OUT THAT KNOWLEDGE OF THE ELEMENTS OF OFFICIAL SUPPORT WAS ESSENTIAL IN LIMITING COUNTER-PRODUCTIVE COMPETITION

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BETWEEN EXPORT CREDIT AGENCIES. SPECIFICS SUPPLIED BY EXCHANGE OF INFORMATION SYSTEM PROVIDED NECESSARY FACTS TO DEAL WITH ALLEGATIONS BY EXPORTERS ABOUT CREDIT TERMS PROVIDED BY JAPANESE GOVT. IT WAS AGREED THAT BUILDING MUTUAL TRUST WAS KEY REQUIREMENT. JAPANESE INDICATED THAT WHEN THEY REPORTED POSSIBLE RANGE OF INTEREST RATE AND REPAYMENT TERMS, EXIMBANK COULD SAFELY ASSUME THAT PROJECT WOULD BE FINANCED AT LOWER INTEREST RATE.

15. JAPANESE INDICATED THEY DID NOT PROVIDE GENERAL LINE OF CREDIT TO USSR. CREDITS PROVIDED WERE RELATED TO SPECIFIC PROJECTS AND WERE DESIGNED TO OBTAIN SUPPLIES OF CERTAIN BASIC RAW MATERIALS SUCH AS COAL, NATURAL GAS AND WOOD PULP. THEY STATED THAT CREDIT AGREEMENTS WERE BELOW THE CONSENSUS INTEREST RATE AND DID NOT HAVE RE-NEGOTIATION CLAUSES. THE US DEL EXPRESSED SERIOUS CONCERN ABOUT AMOUNT OF PRIOR COMMITMENTS OUTSTANDING AND POSSIBILITY THAT NEW CREDITS MIGHT BE PROVIDED WHICH WERE NOT IN CONFORMITY WITH THE GUIDELINES. CITED USG REPRESENTATIONS TO OTHER GOVERNMENTS REGARDING NON-CONFORMING CREDITS AND INDICATED THAT THE USG DESIRED DISCLOSURE OF OUTSTANDING COMMITMENTS INCLUDING SPECIFICS ON INTEREST RATE AND TERMS OF PAYMENT. US DEL REQUESTED FURTHER CONSIDERATION OF HOW TO DEAL WITH NON-CONFORMING PRIOR COMMITMENTS.

16. US DEL INDICATED THAT USEFUL EXCHANGE OF VIEWS WITH CANADA, EC COMMISSION AND JAPAN WILL ENABLE USG TO REVIEW ITS PROPOSAL FOR AN INTERNATIONAL ARRANGEMENT AND, HOPEFULLY, IN SEPTEMBER A REVISED VERSION CAN BE CIRCULATED. WE ENVISAGED A FURTHER DISCUSSION IMMEDIATELY BEFORE THE NEXT MEETING OF CONSENSUS PARTICIPANTS SCHEDULED FOR OCTOBER 19 IN PARIS. JAPANESE AGREED ON THE DESIRABILITY SUCH A MEETING.

17. WHILE THE JAPANESE DEL STATED THEY SHARED THE USG DESIRE TO REDUCE COUNTER-PRODUCTIVE COMPETITION,  
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THEY DIFFER AS TO HOW AND WHEN TO ACHIEVE THIS OBJECTIVE. THUS, CONTINUING PRESSURE ON THE GOJ WILL BE NECESSARY DURING THE COMING MONTHS IF A BROADENED AND STRENGTHENED FOLLOW-ON ARRANGEMENT IS TO COME INTO EFFECT ON JAN 1, 1978.  
MANSFIELD

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## Message Attributes

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